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Report

drawn up on behalf of the Committee on Budgets

on the proposal from the Commission of the European Communities to the Council (Doc. 20/79) for a decision applying Decision 78/870/EEC of 16 October 1978/empowering the Commission to contract loans for the purpose of promoting investment within the Community

Rapporteur: Mr A. SPINELLI

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By letter of 21 March 1979 the Council requested the European Parliament to deliver an opinion on the proposal for a decision applying Decision 78/870/EEC of 16 October 1978 empowering the Commission to contract loans for the purpose of promoting investment within the Community.

The President of the European Parliament referred this proposal to the Committee on Budgets as the committee responsible and to the Committee on Economic and Monetary Affairs and the Committee on Regional Policy, Regional Planning and Transport for their opinions.

On 28 March 1979 the Committee on Budgets appointed Mr Spinelli rapporteur.

It considered the proposal at its meeting of 28 March 1979. At the same meeting it adopted the motion for a resolution unanimously.

Present: Mr Lange, chairman; Mr Aigner, vice-chairman; Mr Spinelli, rapporteur; Lord Bruce of Donington, Mr Früh, Lord Kennet (deputizing for Mr Hamilton), Mr Nielsen, Mr Notenboom, Mr Ripamonti and Mr Schreiber.

The opinions of the Committee on Economic and Monetary Affairs and the Committee on Regional Policy, Regional Planning and Transport are attached.

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The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

embodying the opinion of the European Parliament on the proposal from the Commission of the European Communities to the Council for a decision applying Decision 78/870/EEC of 16 October 1978 empowering the Commission to contract loans for the purpose of promoting investment within the Community

The European Parliament,

- having regard to the proposal from the Commission of the European Communities to the Council (COM(79) 129 final),
 - having been consulted by the Council (Doc. 20/79),
 - having regard to its resolution of 12 April 1978 on the Decision empowering the Commission to contract loans for the purpose of promoting investment within the Community¹,
 - having regard to its resolution of 14 March 1979 on the amendment of the Financial Regulation and in particular the opening of the conciliation procedure with regard to the budgetization of loans. (Doc. 642/78),
 - having regard to the report of the Committee on Budgets and the opinions of the Committee on Economic and Monetary Affairs and Committee on Regional Policy, Regional Planning and Transport (Doc. 45/79),
1. Approves the Commission's proposal to raise an initial loan of 500 m EUA to finance projects in accordance with the general guidelines set out by the Council;
 2. Recalls that the extent of the budgetary authority's powers over borrowing and lending operations will have to be established during the conciliation procedure on the amended version of the Financial Regulation, which is due to open before 30 April 1979;

¹ OJ No. C 108, 8.5.1978, p.32

3. Instructs the Committee on Budgets to keep under review the implementation of the investment projects to be financed from the initial loan raised;
4. Reserves the right to initiate the conciliation procedure should the Council depart from this opinion.

EXPLANATORY STATEMENT

INTRODUCTION

1. On 16 October 1978 the Council adopted a Decision empowering the Commission to contract loans for the purpose of promoting investment within the Community.
2. This Decision established a new borrowing/lending mechanism, known as the NCI (New Community Instrument), to help remedy the uneven distribution, and low level, of economic activity, employment and investment in the Community.
3. On 21 March 1979 the Council, acting in accordance with Article 2 of the Decision establishing the NCI, asked Parliament for its opinion on a proposal for a Council decision raising an initial loan and laying down the guidelines for the eligibility of projects.

This proposal is discussed in the present report.

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DESCRIPTION OF THE PROPOSAL FOR A DECISION

4. The Commission proposes raising an initial loan of 500 m EUA, i.e. half the maximum amount laid down by the Decision of 16 October 1978.
5. This amount would be used to finance two categories of investment, namely:
 - infrastructure investment, notably in connection with transport, telecommunications, agricultural improvements, hydraulic constructions and environmental protection,
 - investment in the energy sector, with a view to ensuring the independence, availability and diversification of the Community's energy supplies, notably through the development, exploitation, use, transport and storage of energy resources and energy conservation measures.

6. To be eligible, projects must conform to the following guidelines:

- be consistent with the relevant national and Community rules,
- make an effective contribution to increasing the economic potential of the Member States concerned,
- contribute to reducing regional disparities and improving the employment situation.

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CONTEXT OF THE PROPOSAL

7. This proposal to raise an initial NCI loan must be considered in conjunction with a parallel and complementary measure resulting from the Brussels European Summit of 4/5 December 1978, namely the grant of a special aid to promote economic growth and investment in the least prosperous Member States with a view to making it easier for them to take part in the new European Monetary System.

8. It is thought that all or part of the interest subsidies to be granted to these States could be applied to NCI loans (any remaining subsidies being applied to loans granted by the EIB).

9. The Commission originally took the view that, if they were to be fully effective, all NCI loans should qualify for interest subsidies. It seems, however, that at the time the Council did not share this view or, at any rate, intended that such preferential treatment should be accorded to the least prosperous Member States only.

10. A further point is that, in practice, NCI loans are granted and administered by the EIB in parallel with the loans granted from its own resources. Consequently, there is a considerable overlapping of these different mechanisms, both of which are effectively under the control of the European Investment Bank. It is clear, however, that on the basis of the basic NCI regulation, the Commission retains certain powers over the grant of the loans in question; hence it also continues to have a general responsibility towards Parliament for the financial policy it pursues in their regard.

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OBSERVATIONS

Role of the budgetary authority

11. It should be recalled that the problem of the budgetization of loans has still not been settled either in the context of the 1979 budget or in connection with the latest review of the Financial Regulation. The situation remains totally confused. However, Parliament has asked for the conciliation procedure to be opened with the Council on this matter before the end of April.

12. At present, the budgetization of NCI loans is determined by the remarks entered in the 1979 budget¹, which were not modified by Parliament at the draft budget stage. These remarks are extremely vague and it will therefore be necessary to await the outcome of the conciliation procedure before attempting to clarify the extent of the budgetary authority's powers over the relevant Community financial operations.

Amount of the loan raised (500 m EUA)

13. The Commission has opted to raise a very substantial initial loan, equivalent, in fact, to half the total amount authorized (1,000 m EUA). The Committee on Budgets is very much in favour of raising only a few loans (two per year, for example), as these would be sufficient to finance comprehensive investment programmes.

¹ 1979 budget (OJ No. L 23 of 31.1.1979)

Revenue

Item 943	'Community loans raised to generate investment in the Community'	token entry	Council Decision of 16 October 1978 (OJ No. L 298, 25.10.1978). The maximum amount of loans authorized is fixed at 1,000 million EUA. This heading is also for the purpose of recording any revenue arising from EEC claims against recipients of Community loans.
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Expenditure

Chapter 43	'Loans for the promotion of investment in the Community'	token entry	Council Decision 78/870/EEC of 16.10.1978 (OJ No. L 298, 25.10.1978, p. 9) Community reserve guarantee
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14. It is likely that the Commission will follow up this first loan operation with a proposal to raise a second loan of 300 m EUA, in order to bring the total amount borrowed up to the 800 m EUA ceiling. At that stage, the Commission will be required to submit to the Council and Parliament a report on the desirability of making the NCI permanent and of raising the present ceiling (1,000 m EUA).

Type of operations to be financed

15. The Commission proposes two different criteria - infrastructure investment and energy investment - without indicating how it intends to apportion loans between the two. Since many sectors are specified in the proposal, it should be possible to finance an extremely wide range of projects.

16. It should be borne in mind that the Commission and the EIB have probably already received numerous applications for NCI loans both from individual undertakings and from the Member States. Accordingly, the Commission must have a fairly accurate idea of the amount and the type of loans it will be able to grant from the first NCI loan raised, of future recipients and of possible future types of investment.

17. It is also likely that the representatives of the Member States have been kept informed of the investment projects eligible for financing from the initial NCI loan.

Member States entitled to loans and the grant of an interest subsidy on part of these loans

18. The basic NCI regulation provides that all the Member States are entitled to loans, the merits of the projects themselves being the only selection criterion. It is nevertheless likely that the Commission will wish to comply with the basic regulation and therefore take into account the regional impact of the projects and the need to combat unemployment.

19. The regulation providing for interest subsidies on certain loans granted for structural projects stipulates that these rebates may be applied to NCI loans. It follows from this that loans benefiting from interest subsidies may be granted only to the less prosperous Member States (i.e. Italy and Ireland). It is probably the Commission's intention to grant an interest subsidy on a substantial proportion of the initial NCI loan raised.

Guidelines

20. The guidelines - which the Council has decided and which the Commission is required to apply in selecting the projects laid down in the proposal for a decision - are very general and therefore allow the Commission a considerable margin for manoeuvre. Parliament itself has recommended the use of such general guidelines.

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CONCLUSIONS

21. The Committee on Budgets approves the Commission's proposal, and in particular the 500 m EUA initial loan suggested and the guidelines for the eligibility of investment projects.

22. It would stress that the question of the budgetization of NCI loans and the extent of the budgetary authority's powers over these loans must be settled in the more general context of the conciliation procedure to be opened with the Council before the end of April.

23. Finally, it considers that the Committee on Budgets should be instructed to keep under general review the manner in which the Commission and the EIB carry out the borrowing and lending operations thus authorized.

OPINION OF THE COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS

Draftsman: Mr E. MÜLLER-HERMAN

On 22 March 1979 the Committee on Economic and Monetary Affairs appointed Mr MÜLLER-HERMANN draftsman.

At its meeting of 29 March 1979 the opinion, which was presented orally by the draftsman, was adopted unanimously, with one abstention.

Present: Mr Pisani, chairman; Mr Notenboom, vice-chairman;
Mr Ansquer, Lord Ardwick, Mr Damseaux, Mr Ellis, Mr Van der Gun, Mr Lange,
Mr Müller-Hermann, Mr Normanton, Mr Schwörer, Mr Spinelli, Mr Stetter,
Mr Rivierez (deputizing for Mr Cointat) and Mr Zywietz.

1. The object of the proposal for a Council decision is to enable the Commission to activate a first tranche of borrowings. It follows on from the Council Decision of 16 October 1978 which sets out the rules under which the Community can raise loans for investment.

1. Aim of the proposal for a decision

(a) Scope of the first tranche

2. Article 1 of the Decision of 16 October 1978 limits the total amount of the loans to 1,000 m EUA - to be activated tranche by tranche. The present proposal will empower the Commission to issue an initial series of loans amounting to 500m EUA.

3. It should be recalled that we criticized the overall ceiling of 1,000 m EUA in the basic decision as inadequate. In this connection we find it very strange that the Commission should observe on the one hand that the number and size of the investment projects to be realized in the infrastructure and energy sectors require a substantial borrowing requirement and, on the other, that 500 m EUA seems an appropriate amount in present circumstances.

4. A further objection is that no reasons are given to explain why this first tranche has to be fixed at 500 m EUA. As Sir Donald MacDougall pointed out at the hearing the Community budget will need to be increased from the present level of 0.7% of GDP to 2-2.5% if it is to play its proper redistributive and stabilizing role in the conjunctural policy field. What is true of the Community budget must be equally true of Community action to promote major investment schemes.

(b) Selection of projects

5. Article 2 of the proposal for a decision states that the loans should be used to finance infrastructure investments and investments in the energy sector. In regard to the former this committee had occasion only last week, when considering a regulation on interest subsidies, to criticize the vagueness of the term 'infrastructure'. We prefer a comprehensive definition: the financing of technical, industrial and social infrastructures and the services required for economic development.

The Commission's proposal is equally imprecise in regard to the way in which this first tranche of 500 m EUA is to be apportioned between infrastructure projects and projects in the energy sector.

II. Procedure

(a) The Commission's role

6. The Commission's role in selecting the projects to be financed is not to be underestimated.

Article 3 gives the criteria for such selection and allows the Commission considerable room for manoeuvre. This committee therefore considers that the Commission should submit each year to Parliament and the Council a report on the position in regard to its borrowing and lending policy until such time as the general report assessing the results of the application of this decision appears.

(b) Coherence of Community financing policy

7. We have often drawn attention to the fact that the number and variety of Community financing instruments could undermine the coherence of Community action.

8. In view of the fundamental objections raised by the laconic and frequently imprecise way in which important concepts are presented in the proposal for a decision, we must observe no less laconically that the dialogue with Parliament - the present consultation - is being sought purely as a matter of form.

Conclusions

9. Subject to this reservation the Committee on Economic and Monetary Affairs approves the release of this first tranche, while criticizing once again the inadequacy of the total amount of the loans and the lack of precision in the proposal, both in regard to the selection of sectors to benefit from the loans and the apportionment of the funds within the sectors.

10. In the hope of keeping an effective check on the coherence of the various Community actions, the Committee on Economic and Monetary Affairs expects the Commission to present an annual report on the position with regard to the Community's borrowing and lending policy.

OPINION OF THE COMMITTEE ON REGIONAL POLICY, REGIONAL PLANNING AND TRANSPORT

Letter from the chairman of the committee to Mr E. LANGE, chairman of the Committee on Budgets

Brussels, 27 March 1979

Dear Mr Chairman,

1. The Committee on Regional Policy, Regional Planning and Transport has approved the principle of the proposed decision enabling the Commission to raise loans in order to encourage investments in the Community, a financial mechanism of which it has already recommended the creation but with the reservation of amendments intended to define the regional significance of the proposals considered, to stress that the total borrowing power provided for is insufficient and to strengthen the Communities' financial means by the coordination within the framework of regional development programmes.

2. The Council Decision of 16 October 1978 provides in Article 2 that:

'The Council, acting unanimously on a proposal from the Commission and after consulting the Assembly, shall authorise the "tranches" of borrowing and to fix the guidelines for the eligibility of projects.'

The Commission has accordingly submitted a proposal for a decision to the Council in application of Article 2, to authorise a first tranche of borrowings.

3. The Committee on Regional Policy, Regional Planning and Transport has no objections to this proposal; it stresses the very positive aspects of the guidelines proposed.

It should be emphasized that eligible projects must 'contribute to the solution of the main structural problems of the Community, and notably to the reduction of the regional imbalances in the Community and to the improvement of the employment situation' (Article 3).

Investments must be in the fields of energy and infrastructure (Article 2); the committee has always stressed the importance of infrastructure for regional development.

Finally, investments must have an additional effect, as the committee has often stressed, they must in fact 'make an effective contribution to the increasing gross fixed asset formation in the Member State concerned'.

Yours sincerely

(sgd) Lord BRUCE of DONINGTON.

Present: Lord Bruce of Donington, chairman; My Nyborg, vice-chairman; Mr Deschamps (deputizing for Mr Schyns); Mr Fuchs, Mr Ibrügger, Mr Liogier, Mr Mascagni, Mr W. Muller (deputizing for Mr Hoffmann); Mr Noè and Mr Seefeld.